



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 10 March 2010

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PUBLIC AUDIT COMMITTEE

5th Meeting 2010, Session 3

CONVENER

*Hugh Henry (Paisley South) (Lab)

DEPUTY CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

COMMITTEE MEMBERS

*Willie Coffey (Kilmarnock and Loudoun) (SNP)
*Cathie Craigie (Cumbernauld and Kilsyth) (Lab)
*George Foulkes (Lothians) (Lab)
*Bill Kidd (Glasgow) (SNP)
*Anne McLaughlin (Glasgow) (SNP)
*Nicol Stephen (Aberdeen South) (LD)

COMMITTEE SUBSTITUTES

Derek Brownlee (South of Scotland) (Con)
Linda Fabiani (Central Scotland) (SNP)
James Kelly (Glasgow Rutherglen) (Lab)
John Farquhar Munro (Ross, Skye and Inverness West) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

John Baillie (Accounts Commission)
Mr Robert Black (Auditor General for Scotland)
Angela Cullen (Audit Scotland)
Caroline Gardner (Audit Scotland)
Gordon Smail (Audit Scotland)
James Thompson (Audit Scotland)

CLERK TO THE COMMITTEE

Tracey White

LOCATION

Committee Room 4

Scottish Parliament

Public Audit Committee

Wednesday 10 March 2010

[The Convener *opened the meeting at 10:03*]

Decision on Taking Business in Private

The Convener (Hugh Henry): I welcome everyone to the Public Audit Committee's fifth meeting of 2010. I remind members to ensure that all electronic equipment is switched off so that it does not interfere with our recording facilities.

Do members agree to take items 5 and 6 in private?

Members *indicated agreement.*

The Convener: Cathie Craigie is attending the Justice Committee, which is having a special meeting at the moment. She will be here once that finishes.

I extend the usual welcome to Audit Scotland staff and others whom we have with us today: John Baillie, the chair of the Accounts Commission; Caroline Gardner, the deputy auditor general and controller of audit; and Gordon Smail, portfolio manager for Audit Scotland. I am not sure whether it is their presence that has attracted a few people to the public gallery or whether it is that of Des Pearson, the auditor general of the State of Victoria. I welcome him to the committee meeting. I hope that he finds it useful and that his visit to Audit Scotland will lead to a long-standing relationship of mutual benefit. I also welcome him to the Scottish Parliament and to Scotland. I am glad that he has brought a bit of Australian sunshine with him; it is unusual for us.

"An overview of local government in Scotland 2009"

10:06

The Convener: John Baillie and his colleagues will give a presentation on the Accounts Commission report. It is an unusual item because we cannot go into the detail of what local authorities deliver as they are accountable to their own councils and to the electorate, but there are top-line issues that may be of significance.

John Baillie (Accounts Commission): We welcome the opportunity to meet the committee and discuss key issues in local government based on the work in 2009. My opening statement will be short; after it, we will be more than pleased to respond to any questions that the committee may have.

During 2009, we completed the first phase of best-value audits covering all 32 councils. We concluded that councils have responded positively to their best-value duties and are better placed to deliver good-quality services as a consequence. Overall, the overview report shows improvements in councils and the services that they provide, which is encouraging. The commission will continue to support and encourage improvement.

As the committee knows, the scale of the budget challenges that councils face is significant. The overview report contains a summary of the context, and the commission's findings emphasise the need for urgent action and fresh thinking about service design and delivery. Performance management and reporting, robust options appraisal and effective scrutiny remain central and will be increasingly important in the coming years.

The Accounts Commission has been asked to undertake a key role in co-ordinating scrutiny in local government. We continue to work hard with the inspectorates and our other scrutiny partners to reduce the level of scrutiny of councils and their services where the evidence with which councils present us shows us that we can do so.

The Convener: I will ask a couple of factual questions. Towards the bottom of page 5 of the report, you say:

"After years of sustained growth in central government financial support for local government, in December 2009 the Scottish Government announced funding of £12 billion for 2010/11, representing a decrease in real terms on the previous year."

From that, can I take it that local government received increases until 2009-10?

John Baillie: Will you give me the reference again, please?

The Convener: It is towards the bottom of the second-last paragraph in the left-hand column on page 5. It is in the controller's foreword.

John Baillie: It is therefore Caroline Gardner's comment. I ask her to speak to it.

Caroline Gardner (Audit Scotland): Yes—the short answer is that there has been year-on-year growth until the settlement that was announced for the financial year that is about to start in April 2010.

The Convener: So the local government budget has grown up until the financial year just ending and there were no cuts in the current financial year.

Caroline Gardner: That is right.

The Convener: What is the cut in real terms for 2010-11?

Caroline Gardner: There will be a very small real-terms decrease. Gordon Smail might have the figure to hand.

Gordon Smail (Audit Scotland): There will be a very small decrease of about 0.4 per cent in real terms.

Caroline Gardner: There will be a cash-terms increase but a very small real-terms decrease.

The Convener: How much is that 0.4 per cent?

Caroline Gardner: You are testing us today on whether we have the figures at our fingertips. We are talking about a small amount of the overall budget. We will confirm the figure separately rather than risk misleading the committee.

The Convener: On page 7, under the heading "Income and expenditure", paragraph 2 states:

"Local authority income from government funding, council tax, service charges, housing rents and other sources amounted to £17.4 billion, an increase of around 3.7 per cent on 2007/08."

There was a 3.7 per cent increase in 2008-09. I presume that we do not as yet have the figures for 2009-10. Is that right?

Caroline Gardner: That is right. We are currently coming to the end of financial year 2009-10, so next year's overview will give the figures for that year.

The Convener: Can we anticipate that local authority income will increase in 2009-10 as well, given that the cuts will start in 2010-11?

Caroline Gardner: That is right.

The Convener: I found the figure for job losses difficult to understand. Paragraph 38 states:

"The overall local authority workforce declined by around 4,000 FTE ... in 2009 ... Over this period Glasgow City's workforce numbers fell by around 5,800".

If Glasgow City Council's workforce figures fell by 5,800, how could the overall total fall by 4,000?

Caroline Gardner: Those figures come from the joint staffing watch survey and are taken from the table at the bottom of page 13, which summarises the overall movements. You are right that the decrease in Glasgow City Council's workforce figure is greater than the overall figure. That means that there was an across-the-piece increase in full-time equivalent posts in the rest of local government.

The Convener: So, excluding Glasgow City Council, employment in every other local authority increased.

Caroline Gardner: Yes, by a very small amount across the piece. Total local government staffing stands at about 0.25 million.

The Convener: In the case of Glasgow City Council, the decrease reflects not a decline in staff numbers but a transfer of responsibility to an arm's-length body.

Caroline Gardner: That is right. That is in line with the increase in resources that we have just been exploring.

The Convener: So, in fact, the number of people who are employed in delivering services has increased rather than decreased.

Caroline Gardner: That is right. Employment in local government has gone down slightly because of the shift of staff to an arm's-length body by Glasgow City Council, but the overall number of people who are engaged in service delivery has, on a like-for-like basis, gone up very slightly. However, that will not take account of previous changes in those that employ staff, whether it is local government directly or arm's-length organisations. Paragraph 38 provides a factual picture rather than a conclusion that has been drawn about levels of service.

The Convener: I have other questions on more substantial issues, but I will come back to those.

Bill Kidd (Glasgow) (SNP): On page 11, the second half of paragraph 28 states:

"It is important that senior management provide elected members with clear and accessible information on the financial position of the council to support effective decision-making and public accountability."

That point seems to be made because an earlier sentence in the same paragraph states that

"Some auditors are concerned that the annual accounts may be viewed as purely a technical exercise".

It is extremely important for people who make political decisions to have as much background knowledge as possible and to know the impact of decisions not only on services but on value for

money. Are senior management in councils given direction on the level of information that they must supply to councillors?

10:15

John Baillie: I will start and Caroline Gardner will follow up. Bill Kidd has raised several points; if my answer is too broad, just interrupt me.

First, elected members must understand what is put before them. If the statutory accounts are complicated, a means must be found to simplify them for members' benefit or to bring members up to speed.

The second important point is that we have said for several years that a clear need exists for performance management and performance reporting to be of a quality that allows members to take proper decisions on the choice of services—options appraisals and so on—and to undertake general scrutiny of the conduct and progress of councils.

The third point, to which the report refers, is that much work still needs to be done to develop personal training plans for elected members, which will when necessary include training on understanding financial and related matters.

Caroline Gardner: What John Baillie says is exactly right about the context. The direct answer to Bill Kidd's question is that officers do not have instructions on the level of information that should be available to members. That level of prescription would probably be hard to achieve. Instead, what is important is that members have the context that they need for proper decision making and the right level of detail to let them take decisions for which they are properly accountable and about which they can be transparent with their electorates. The best-value guidance gives some information on that, but that is not instruction.

The Convener: John Baillie mentioned training for councillors. When I was a councillor before being elected to the Scottish Parliament, I suggested such training. Through the Convention of Scottish Local Authorities, I did work to prepare training courses for members. I lost sight of that when I was elected to the Scottish Parliament. Has such training not continued? Are training courses not in place for councillors?

John Baillie: COSLA, the Society of Local Authority Chief Executives and Senior Managers and others have worked hard to develop training fully so that all councillors have personal development plans, but there is still a way to go. Caroline Gardner may know the specifics of the training programme.

Caroline Gardner: The programme is a big part of the Improvement Service's work. As you know

well, convener, such training has been considered to be good practice for a while, and it was boosted when the new remuneration arrangements for councillors were introduced four or five years ago. One requirement of that was that councillors should have individual personal development plans that ensure that they are trained in their general responsibilities as councillors and in specific requirements for tasks such as membership of a planning committee or a health board.

Murdo Fraser (Mid Scotland and Fife) (Con): Exhibit 4, which is on page 9, details the investments that several Scottish councils hold in Icelandic banks. Paragraph 7 on the previous page says:

"Councils expect to recover around 95 per cent of the deposits and accrued interest."

The report predates the referendum that was held in Iceland at the weekend, in which a substantial majority of people voted against making payments to organisations outwith Iceland. Will you update us on the position, as far as you are aware of it?

John Baillie: We talked about the issue just before we joined the committee this morning. The situation is being handled nationally throughout the United Kingdom. The expectation is still that quite a lot of money will be recovered. Gordon Smail may know more. I think that we will research the point more.

Gordon Smail: The picture is certainly developing. As Mr Baillie said, the Local Government Association in England is working with COSLA to present a united case for UK local authorities. The most up-to-date information that we have is that legal questions exist about the preferred creditor status of councils. As Mr Baillie also said, we will look into that further. The picture is shifting, but councils certainly expect to recover most of, if not all, the money.

Murdo Fraser: Would it be fair to say that there is now greater uncertainty about whether that money will be recovered?

Gordon Smail: That is fair. The fact that the legal process is now under way means that we need to keep an eye on the situation and see how it unfolds. Councils have provided for those amounts but, as our report says, the expectation is that all the money and related interest will be recovered.

George Foulkes (Lothians) (Lab): Do you remember the Bank of Credit and Commerce International affair?

John Baillie: Yes.

George Foulkes: Do you remember how many how many Scottish local authorities lost money as a result of their involvement in that situation?

John Baillie: I cannot remember the exact figure.

George Foulkes: There were quite a few, were there not?

John Baillie: Yes.

George Foulkes: They have done it again, have they not? Do they not learn from their mistakes? Is it not the case that some interest rates are too high to be true? That was the case with BCCI, and it proved to be the case again with the Icelandic banks. What are you doing to ensure that local authorities learn from their mistakes?

John Baillie: Although the figure that is involved this time—£46.5 million—is a great deal of money, it is fair to say that there is not the same degree of concentration of local authorities' money in particular banks. There is a more general problem this time, rather than a specific one.

I accept your point about the Icelandic interest rates. That should have been a sign. By definition, the higher the rate, the higher the risk.

George Foulkes: The principle is the same. There are treasurers or directors of finance of local authorities who have public money that they are meant to safeguard but they get excited when they suddenly see a bank offering a big interest rate. They should say, "Wait a minute. We've had experience of this in the past. These are dodgy investments. Let's not do it again." Is the Accounts Commission doing anything to advise them on that or to discourage them from trying to make a quick buck?

John Baillie: I believe that a direct consequence of the case that you referred to was the introduction of the prudential borrowing regime.

Caroline Gardner: When the Icelandic events took place, the first thing we did was carry out a quick piece of work to review local authorities' treasury management practices. That gave us some comfort because it was clear that there is good treasury management policy in place in just about every local authority in Scotland, and that that was generally being complied with. That is a big improvement on where we were when the BCCI situation arose. However, some questions were raised about the reliance on a small number of rating agencies and how quickly the ratings were being adjusted to take account of concerns that were surfacing in Iceland and elsewhere in the world as the banking crisis progressed.

The auditors of the local authorities where losses have materialised so far have been working

closely with their councils to examine what went wrong. We think that the fact that money was at risk is not necessarily an indication that somebody got something badly wrong. If a council spreads its risk among a number of different interest-bearing accounts, it is probably not inappropriate for some of those risks to be higher in return for higher interest rates. The question is how the judgment about that trade-off is made in practice.

The overall message is that there has been a huge improvement since BCCI, but there are still important questions for anyone who is managing significant amounts of public money about how they properly balance risk and return, when risk on a significant scale is not acceptable in relation to taxpayers' money.

George Foulkes: Can you say that the problem will not arise a third time, or that it is less likely that it will?

Caroline Gardner: I would like to say that, but you will not be surprised to hear that auditors hardly ever say "never".

George Foulkes: Indeed.

Anne McLaughlin (Glasgow) (SNP): The Audit Commission's findings refer to the impact of the recession. Page 3 of the submission says that

"as councils are aware, the future budget position is expected to be substantially more difficult and an urgent response is required."

Should the response that you are calling for come from individual local authorities, the Convention of Scottish Local Authorities or the Scottish Government?

John Baillie: We are addressing our findings to the local government community. When we say that "an urgent response" is needed, we mean that it is needed in relation, first, to what services are provided and how they are provided and, secondly—I keep saying this, but only because it is true—to the introduction of proper performance management and reporting so that elected councillors have an idea of how to choose services and how they should be provided. The two go hand in hand.

Anne McLaughlin: We all acknowledge that local authorities have difficult decisions to make and we all disagree with any cuts in funding of services. Local authorities have to make those decisions, but they also need to plan ahead for further cuts. There is a general election happening—in May, we think—and there has been talk of an emergency budget by various parties. Are local authorities carrying out long-term planning and considering how they will cope with the unknowns? We do not know whether there will be an emergency budget or who will be in power, so there might be further cuts in addition to the

ones that we are expecting. Are all local authorities looking ahead to that?

John Baillie: Information from the work of Audit Scotland suggests that a lot of scenario planning is going on. I have two points on that. One is that there is a need for a much more long-term consideration of the resources—the people, property and pounds—that councils manage, so that things are done on a more co-ordinated basis.

The second point came up at the COSLA conference last week, which I attended. There is a need to ensure that the fire fighting in the immediate future does not unnecessarily impede the long-term approach. It would be easy to take a short-term view and live off the topsoil today, but pay for it tomorrow. An example might be the letting go of experienced or talented people—or both, as one tends to follow the other in contributions to councils' welfare—only to find in several years that they are badly needed and are not there. Gordon Smail will elaborate on that.

Gordon Smail: John Baillie has covered most of the points. We have seen for a while that councils are improving their short and medium-term financial planning, but there is a much bigger issue about long-term financial planning, which needs to be done a lot better. As Mr Baillie said, there is a connection with the other resources that councils have available. The point that we are making in the report is that we are in a different set of circumstances, so many of the things that have served councils really well in the past and until now will not be enough in the future. For example, in the past few weeks, councils throughout Scotland have put together balanced budgets, which is good in the circumstances, but the big job now will be delivering on some of the assumptions in those budgets, such as those on anticipated efficiency savings.

It has not been said this morning, but elected members are going to have to make tough decisions. To refer back to a previous question, I think that they need to have the right type of information available so that they can make informed decisions about services and the level of services. In some cases, the approach might be about being content with maintaining a level of service, which will be a new dimension: conscious decisions will have to be made to retain some services at a certain level, rather than to improve or expand them. Several things are going on.

Anne McLaughlin: Is there a general acceptance in the local government community—and not just by one or two authorities—that there is a requirement to look at things differently and that we need long-term planning?

John Baillie: It is fair to say that there is. A lot of scenario planning is going on and there are all

sorts of discussions behind the scenes to consider how best to deal with the issues and how to ensure that vulnerable people are not affected.

Gordon Smail: It is absolutely clear that councils know better than we do what they face in the next few years. We see that in our work and we are just reflecting some of the things that we think we can do to support improvement and to help councils deal with the tough times that lie ahead.

10:30

The Convener: Just before I bring in Nicol Stephen and Willie Coffey, councils know that tough times are ahead; I will come back to the pensions issue at some time during the meeting. One of the things that has been quite starkly obvious in recent years—it reflects what is happening in other parts of the public sector, such as the health service and universities—is the huge growth in the salaries of the people at the top. That is now starting to cause problems in the environment that you described. An increasing number of services are being cut, but a vast number of people in the public sector across Scotland are earning salaries that are completely out of proportion to those that are earned by the rest of the population. Is anything being done? I know that chief executives have taken the decision to freeze their salaries, but the situation goes way beyond that. If someone has had a 20 per cent or 30 per cent increase in their salary and then they decide to freeze it, the damage has already been done. Is anything being done to address that disgraceful situation in the public sector?

John Baillie: The answer to that would start with the observation—I think that we are all aware of it—that if we want to retain the people who have the qualities to manage a complex organisation such as a local authority, that is the going rate.

The Convener: I am sorry, but I will pick you up on that. I do not mean to be personally offensive to you, but I have heard that facile argument being used right across the country. When I became leader of Renfrewshire Council in 1995, I was told that if we did not set the salaries at a particular level, we would not attract and retain the best people. I refused to do that; I pegged the salaries at a lower level than even some of the smaller local authorities nearby. We attracted and retained good people.

People at the top always use those arguments to councillors, sometimes especially when there is a change of administration and people come in who have relatively little experience. In a country the size of Scotland, where would those people go if the local authorities were not able to retain them? Are there so many jobs out there that those

people of huge ability would be able to go to? Would they not earn enough and get enough job satisfaction to stay in the job and do something for the communities that they serve?

John Baillie: It seems to me that the general point that I made is just that—a general point—and there can be specific counterarguments in given cases. People are much more mobile these days and they could find themselves another role.

What holds people to local authorities and to the public sector is a desire to serve, and that is why people stay where they are and might stay where they are, earning a smaller amount than they would otherwise. However, I maintain the general point: if you cut salaries so much over the piece, people will not be attracted to the work.

The Convener: Cutting salaries? With all due respect, I will give one example because I happen to know about it, but I am sure that it will apply right across the country. In my own local authority area, the director of education earned £96,000. That is for someone who came up through the teaching ranks. There are not that many jobs elsewhere for someone with that background and experience, other than perhaps as a director of education in another local authority. Are you seriously telling me that £96,000 is not enough to live on?

The council used the exact argument that you have just used—we need to reward in order to retain and to compensate for added responsibilities—and increased the director's salary to £107,000, at the same time as the council cut direct budgets to schools. As for the added responsibilities, there were more than 200 fewer teachers to manage, one school was shut and six nurseries were closed, so I cannot see where the extra responsibilities lay. Somehow, we needed to reward the people at the top, including the heads of service, not just the director.

I am sure that that applies to every council in Scotland, so I am not singling out my local council—it just so happens that I am familiar with it. However, we have this facile argument about rewarding those at the top, and at the same time we are cutting school budgets, shoving people out the door and losing teachers, who are the people who actually make a difference. Unless someone gets a grip of that, the problem is going to be compounded.

John Baillie: You will not expect me to comment specifically on the example that you raise; I understand that it is an example to illustrate your point. Does Caroline Gardner want say something?

Caroline Gardner: It is unarguable that we have been through a period of significant wage inflation for senior staff, not just in local

government but right across the public sector and more widely. It is difficult to focus on just local government in that context. That is one of the reasons why the Accounts Commission focused in the overview report on the need for councils to move on from just the shared services agenda to other, more extensive ways of joint working and collaborating in order to get the same quality of services for lower cost. For example, some health boards and councils have appointed joint directors of health and social care, which takes out one post at a very senior level but should also give them much greater capacity to design better services for older people or people who rely on community services. The thrust of the commission's report is to ensure that we get the best value for everything that we spend on staff, including senior managers, on assets and on all the other things that we do.

Nicol Stephen (Aberdeen South) (LD): I want to ask about the role of the Accounts Commission and Audit Scotland and the former's relationship with this committee and—linked to that, I guess—with Parliament and the Scottish Government. The relationship has always been explained to me as being about the separation of powers, if you want to call it that. It is not a separation of powers in the classic jurisprudential sense; it is the separation of local government from central Government and the importance of recognising the distinction between local and central Government. However, the witnesses sit here today answering our quite detailed questions about local government. I am interested to know your perspective on that relationship and where you feel that it is appropriate for us to scrutinise and ask questions of you, Audit Scotland or individual local authorities in this area. Where do you feel that we would be stepping over the mark or going beyond the general level to which the convener referred when he introduced this agenda item, and getting into areas that strictly should be the responsibility solely of you and the members of the commission?

John Baillie: That is an interesting area to look at. The Accounts Commission's view—we talk about it informally—is that it is entirely right and proper that a body that funds approximately 80 per cent of local authority activity has some kind of interest in and, indeed, receives reports on what is happening in local authorities. As you will know, the status of this meeting is that of an informal briefing rather than one where we give evidence per se. However, the Accounts Commission would welcome a closer involvement with Parliament in terms of its reporting and conversations with members of the Scottish Parliament and its committees. Such discussions would only enhance your understanding of us and vice versa. There is a good case for developing that conversation.

As you will know, the Accounts Commission is not dissimilar to the Public Audit Committee in so far as you take reports on central Government from the Auditor General, and the Accounts Commission takes reports from the controller of audit for Scotland and reaches findings, which are published. The Accounts Commission acts as a buffer or barrier, just as the Public Audit Committee does in terms of work with the Auditor General and many others. There is therefore a reasonable parallel.

I think that the Accounts Commission works well. If we exclude the past two and a half years, which is the time that I have been its chair, the commission has worked very well since its establishment in 1976—albeit at that time it had a much smaller remit that centred predominantly on financial statements rather than the best-value studies that we see these days. I and indeed the commission would welcome it if the general thrust behind your question—that there should be more of this work—were developed.

Nicol Stephen: I welcome that response and feel that we should take the opportunity to develop the relationship. After all, although the Accounts Commission might not have direct responsibility for certain issues that come before it, they might impact on the committee's work or the operation of the Scottish Government, and the commission should have the opportunity to refer such items to us.

Indeed, the same could apply in the opposite direction with the various issues in which we have an interest and which we probe and ask questions about. For example, we have asked questions about a controversial land transaction that received media coverage and about Strathclyde partnership for transport, which has recently grabbed the headlines. As you know, SPT's chief executive and chairman have recently departed, but we were told that, as it is effectively a creature of local government, it would be more appropriate for the Accounts Commission and the individual local authorities to take the lead in that area.

Of course, Shetland Islands Council recently grabbed the Scottish national headlines with the departure of its chief executive. I note that in paragraph 29 of the report you say that it was the only local authority in Scotland not to receive a clean audit certificate. I should make it clear that I have no idea whether the issues are in any way related. How might we interact with you when such issues of national importance and significance, which attract a lot of media attention, come before the committee? It might be that in each and every case you handle the matter very effectively and professionally, but we get little or no feedback about that. Might that be part of the developing relationship that you have talked about?

John Baillie: The people on either side of me and those representing Audit Scotland might want to comment on this in a second, but I think that the general issue is the Accounts Commission's independence. Of course, as the specific cases that you mentioned are still live, I cannot comment on them—you would not expect me to. However, instead of having some formal reporting mechanism, we could establish a mechanism for providing additional informal briefings to MSPs.

As I say, I will not go into the details of the individual cases that you highlighted. However, I can set out the general process. After the controller of audit considers the work that she and her staff have done and reports to us, we sit down to consider the report objectively and discuss what we might do about it. However, if the committee would welcome informal briefings I am sure that, as long as they did not get in the way of particular work or invite any speculation about the outcome, they could be provided.

Before I invite my colleagues to comment, I point out that we work hand in glove with the Auditor General on issues that involve central Government. Indeed, that happens quite frequently, and the Auditor General and the Accounts Commission liaise on the best way of handling such matters to ensure that there are no crossed lines and that the right body addresses the issue.

10:45

Nicol Stephen: Yes, but it is fair to say that, historically, the Accounts Commission and the Public Audit Committee have tended not to liaise.

John Baillie: That is correct.

The Convener: The frustration—which Mr Baillie cannot resolve—is that, even if we get informal reports, we cannot pursue matters. Nicol Stephen gave the example of SPT. The committee was unable to consider whether there was wrongdoing or there were irregularities and would have been unable to do so even if it had had an internal briefing, as the responsibility lies with local government. The Parliament would have to give us the ability to examine such issues on the production of a report. The rules and legal framework would need to be changed completely. If Mr Baillie and his colleagues or Audit Scotland gave us an informal briefing, what would we do with any information that highlighted irregularities? We could do nothing to pursue the matter if it were a local government matter. The rules of engagement would need to change.

Nicol Stephen: I accept that point fully. However, I read a media briefing this weekend or a previous weekend that told us that the First Minister intended to abolish SPT. That

announcement has not been made to Parliament, but such a fundamental and significant restructuring can occur when it is decided that things have gone so far wrong that the Parliament or Government should intervene. Part of the reason for my question is the fact that the boundaries between the responsibilities of central Government and local government can change.

The Convener: Absolutely, and if there were a policy change, the appropriate committee would deal with it. I am talking specifically about the committee's current remit. For us to go further would require a rule change. That might be a welcome change, but I am reflecting on the fact that there is a limit to what we can do.

George Foulkes: Who is responsible for checking the accounts of the police and fire boards and reporting if there is anything wrong with them? Do you do that?

John Baillie: The controller of audit reports to the Accounts Commission. We do it, yes.

George Foulkes: But you do not report to us as you have done here.

John Baillie: That is correct.

The Convener: Police and fire board accounts go back to the boards and then to the constituent local authorities.

Nicol Stephen: So they are wrapped up in this report, essentially.

John Baillie: Yes.

George Foulkes: That needs to be looked at, too.

The Convener: There is an issue that we cannot resolve this morning. Certainly, Mr Baillie and his colleagues cannot resolve the problem.

Nicol Stephen: No, but we can develop a resolution over time.

The Convener: Absolutely. That is a good point and we should not lose sight of it.

John Baillie: The Accounts Commission has been considering the issue. There is a commonality of view on the matter.

Nicol Stephen: Excellent.

The Convener: Caroline, do you want to say anything before I bring in Willie Coffey?

Caroline Gardner: It might be useful to take a step back to Mr Stephen's original question about the right level of engagement of the Parliament with local government, which is an important issue. Parliament decided when it was established that the Accounts Commission would remain in place to look at problems that occurred in individual councils. The Accounts Commission has

general powers to take action in relation to wrongdoing and specific powers to take action when public money is lost because of that wrongdoing. Those powers are used and are taken seriously in local government.

There is what might be described as unfinished business around the overall performance of local government, reflecting the fact that 80 per cent of its funding comes from the Scottish Government's overall budget through the Parliament's budget-making decisions. At the moment, we take account of that by producing joint reports for the Accounts Commission and the Auditor General on things such as the investment that went into teaching practice for the 21st century, which was a big Government policy that was carried out by local government. However, there are questions about whether there should be stronger and more formal links with the Parliament on local government's part of that. The Accounts Commission would welcome the opportunity to take that debate further.

Willie Coffey (Kilmarnock and Loudoun) (SNP): I start by reminding the committee what we said at the beginning of the meeting—that we are not here to attack individual local authorities, because they are not here to respond and because Mr Baillie is probably not in any position to give us an answer. It is not appropriate for us to do that.

I have a question about the local economy and regeneration. Given that we know that the Scottish budget is likely to drop by about 13 per cent over the next four years, which will put pressures on our councils, do you have any views about the range of interventions that councils have or might wish to have to stimulate their local economies? Their powers appear to be extremely limited in that regard—they use their own resources or they expect additional resources from other sources.

I know that councils have prudential borrowing powers, as Mr Baillie mentioned, but they are particularly limited in the context of the local economy. One or two examples of good practice have been cited, but they appear to be along the lines of developing action plans, thoughts, strategies and so on. Have authorities expressed to you a desire for further powers, such as borrowing powers or capital risk powers, that might help them to regenerate their local economies a bit more effectively?

John Baillie: It is fair to say that there is a variety of views, but Caroline Gardner knows the specifics of the issue.

Caroline Gardner: It is a very good question, particularly in the current climate. We are not seeing a great appetite for extra powers. The existing powers are quite extensive. The

prudential framework means that councils can borrow up to the limits of their ability to repay, which is what is in question now, as funding starts to decline after years of real-terms growth. Powers around, for example, planning gain and planning consent can leverage in extra funding.

What is most interesting for us is the way in which the most innovative local authorities can work through local partners rather than directly, by getting together—depending on the characteristics of their local economy—the local tourism industry, the local construction industry, the local training and development people, the planners, councillors and the local enterprise network to look at how each of them can use their powers to work towards a shared vision of what they want to achieve, instead of the council having to do all that itself.

Although I cannot put my finger on hard evidence, through the best-value audits our sense is that quite a wide range of councils is active in doing some of that work and take it seriously as part of their role, over and above the traditional provision of services, whereas some councils are a bit less confident about their ability to shape the local economy in that way. Falkirk Council is an example of a council that has done a lot of thinking about how it can use its powers to bring in other bodies that have the power, the resources and the capacity to take certain actions, rather than to take them directly itself. Falkirk Council is not the only council that has done that, but it is one that springs to mind.

Willie Coffey: That was an extremely interesting answer. We know from elsewhere in the report that the 2 per cent year-on-year efficiency gains will probably not be enough to address some of the issues to which the increasing demand on resources will give rise. It was interesting to hear your view on how consistently an approach that involves the use of existing powers to think of different solutions to apply locally is being adopted. Perhaps local authorities require to do further work to make progress on that.

I have another, smaller question. It relates to the table on page 7 of the report, which shows local authorities' income and expenditure. Does that table reflect income through the housing revenue account? I do not see it listed as an income source. As we know, that money comes from rents that people pay locally, and it must be worth about £1 billion a year to Scottish local authorities. Is that included in the table, or is it dealt with separately?

Gordon Smail: The short answer is that housing rental income is included in the table. You are in the right ball park—it amounts to about £1 billion a year. It is included under the line

"Service fees, charges, other government grants and rents".

Willie Coffey: Thanks for that clarification.

George Foulkes: I would like to follow up on Willie Coffey's first question. Paragraph 3 on page 7 of the report says:

"Income from council tax totalled £2.25 billion (around 13 per cent of total income)."

When I was a councillor, which was a long time ago, before even the convener's involvement in local government, nearly 50 per cent of our income came from what were called the rates. Professor Baillie probably remembers.

John Baillie: Sadly, I do.

George Foulkes: We had discretion in local government. The Tories used to propose reducing the rates and we used to propose increasing them to provide better services, which would justify the increase. We therefore had some discretion and there was a choice, but now that the council tax is frozen by Scottish Government diktat what discretion does that leave local authorities in respect of their income as opposed to their expenditure?

John Baillie: There is discretion in relation to, for example, planning charges, which are significantly down because of the recession. Many councils are considering how to charge for leisure services. It is difficult, because the very time when a lot of people may need exercise or some form of leisure to keep themselves stable at a time of threatened redundancy is the very time when they may have to pay for it. It is obviously not my decision. It is a decision for councils, but they face a difficult dilemma. Those are two examples, but there is limited scope.

George Foulkes: Very limited.

John Baillie: Do Caroline Gardner or Gordon Smail want to fill in some of the blanks?

Caroline Gardner: It is true that the proportion of councils' income that is raised by local taxation has been falling for a good while. That was accelerated by the council tax freeze, which kept that part of their income steady while the rest of their income increased. I will round out that answer. I am not sure that it is fair to say that the freeze was imposed; it was part of the concordat between central Government and local government, whatever we think of the merits of the agreement.

George Foulkes: There is an opportunity for a debate on that. If you are told that you will not get any additional sums unless you freeze council tax, it is called blackmail.

Caroline Gardner: I clearly cannot comment on that, Lord Foulkes, but I can say that at the same

time there has been a reduction in the amount of ring-fenced funding, which gives councils more freedom in spending money. You are right about the broad point that the proportion raised through local taxation has fallen.

George Foulkes: When you take out Government grant and council tax, what percentage is left for discretionary charge raising, which Professor Baillie mentioned?

Caroline Gardner: Exhibit 1 gives you a pretty clear indication of the amount that does not come from either Scottish Government funding or council tax. It is a small proportion overall.

George Foulkes: What percentage is it? Is it 7 per cent?

Caroline Gardner: It is a small proportion, particularly when you take account of the fact that a large amount of the second line in exhibit 1, on service fees and so on, consists of rent.

George Foulkes: Thank you very much.

Bill Kidd: I would not like to think that we have to blackmail councils into delivering equality. Paragraphs 79 to 82 on page 19, under the heading "Equality of outcomes for individuals", correctly state:

"Councils need to do more to assess and monitor the impact of their activity on the needs of different groups within their communities ... Comparative data to demonstrate the equality of services is very limited."

That is obviously a long-term situation, which has not improved dramatically. Is it known yet whether, when the UK Government's Equality Bill is implemented in Scotland—I hope later this year—it will place a duty on councils to ensure that comparative data are available? After all, I can see no way in which to ensure that there is transparency in service delivery if there are no comparative data.

John Baillie: I will make a general point and ask Caroline Gardner to make specific comments. I again come back to the point that I made earlier about performance management and performance reporting.

Caroline Gardner: Bill Kidd is absolutely right that without proper information no council can know what impact it is having on the different needs of groups in its local population. We do not yet know the outcome of the consultation on how the bill will apply in Scotland, but I agree with your point.

11:00

The Convener: Further to Nicol Stephen's point, the committee and the Parliament will no doubt need to reflect at some point on how the public interest can be best protected, and who

should scrutinise matters, when issues of significant public concern arise about substantial amounts of money that ultimately come from central Government. However, let me take the issue back to the local level, on which the report—although it is an overview report—gives some very specific examples.

At local level, is there sufficiently robust scrutiny, either by scrutiny boards or by audit committee equivalents? Do the councillors on those committees feel sufficiently independent of the council to look at spending on behalf of the public and to challenge matters in a robust way? Let me quote one example from the report:

"Auditors in East Ayrshire were unable to form an opinion on whether the council's Building and Works service met its financial objectives in 2008/09, due to a lack of reliable evidence supporting the trading accounts."

That is a fairly serious observation, although the report goes on to mention that

"the council has taken action quickly to address these issues."

In that instance and in other instances across the country, is there an opportunity for a body of councillors who are independent of the council's parent committees to look at those issues, to challenge what has happened and to come up with recommendations—in the way that this committee does—about matters of significant concern?

John Baillie: It is fair to say that practice varies across the country. As you said, our report is an overview report. Some councils are much more focused on having the proper information to allow them to take the right decisions or to take the decisions that have more chance of being right. Having quality information on services and on the costs of services can lead to much more effective scrutiny and decision making. There is a general need for all councils to have such information, otherwise they are all guessing in the dark. Some councils are much better than others, but there is still a general need for things to improve.

Caroline Gardner can give further specifics.

Caroline Gardner: For a number of years now, the commission has been pushing for councils to ensure that their audit or scrutiny committee is chaired by a councillor who is not a member of the ruling administration. That should ensure that the audit committee provides a real challenge that is perceived as such—and that there is confidence about that—outside the council. That works very well in some parts of Scotland, but less well in others.

The other bit of the machinery that is worth noting is that, where that goes wrong and problems emerge that are not properly tackled

within the council, the Accounts Commission has a role. The legislation makes formal provision for me, as controller of audit, to report on such matters. The commission can then take action, which can range from making recommendations to the council all the way through to, in the most serious cases, suspending or disqualifying members. That is the mechanism that is currently provided in statute for dealing with the problems that are not tackled effectively at local level.

The Convener: Has COSLA accepted the commission's recommendation that audit committees should be chaired by a councillor from a party other than that of the ruling administration?

John Baillie: I think so.

Caroline Gardner: Yes, that is very widely accepted. There are few exceptions now.

The Convener: What is being done with those few exceptions?

Caroline Gardner: We continue to apply pressure year on year through the annual audit process and in particular through best value. The issue is a theme in fewer and fewer best-value audits, as councils accept that that really is good practice for good reasons. I do not have up-to-date figures on which are the outstanding councils, but we have seen a significant reduction in that number over several years.

The Convener: It would be interesting to get that information. That is an important recommendation from the Accounts Commission that should lead to improvements in standards.

The overview report talks about the generality, but it also mentions the specific example of a fairly serious situation that arose in East Ayrshire Council. As well as recommending that a council deal with such issues, does the commission recommend that the council's scrutiny or audit committee—obviously, the commission cannot dictate such a committee's agenda—should look at such issues? As a matter of good practice, do councillors consider such issues objectively to ask why the situation arose and what lessons might be learned? Did that happen in this case, for example?

Caroline Gardner: The only fair answer is that it varies. In the case of East Ayrshire Council, for example, I decided against using my statutory powers to report to the Accounts Commission because we were clear that the council dealt with the issue very well after it came to light and the annual audit process had considered it. The council not only dealt thoroughly with the specifics, but it considered what it could learn from the situation. That is one example, but practice varies across the piece; that is why the Accounts

Commission has the powers to look specifically at individual authorities.

The Convener: Another item in your report that worries me a bit refers to a significant and serious issue. Paragraph 36 refers to the implications of restructuring for the role of the chief financial officer. If departments such as finance and corporate affairs were to merge, the head of finance and corporate affairs might not be the chief financial officer. The Chartered Institute of Public Finance and Accountancy recommends that

"the chief financial officer reports directly to the chief executive".

However, there could be a departmental structure in which the chief financial officer has an accounting system that means that he goes through the head of department to the chief executive. There are good reasons for CIPFA making its recommendation. Is that issue being addressed, or are you still worried that lines of accountability could be blurred?

John Baillie: The Accounts Commission is looking closely at that. Whenever we see something that does not fit CIPFA's recommendation, which we firmly believe is right, we pounce on it. Caroline Gardner may want to add something on the specifics.

Caroline Gardner: We recognise the concern that the convener expresses. It is an important safeguard that the chief financial officer should be on the senior management team and report directly to the chief executive. We are doing more work on behalf of the Accounts Commission to consider how far councils comply with the spirit of the recommendation, as well as the letter of it.

The Convener: Right. So that work is on-going.

Caroline Gardner: It is referred to at the end of paragraph 36.

John Baillie: The matter is very important for us.

The Convener: My next question relates to one of Nicol Stephen's earlier points. On page 15 of the report, you refer to procurement issues and state that significant savings can be made if procurement is done properly. You also state that huge contracts can be let if things are done centrally. However, in a central body that is at arm's length from councils and elected members, even if members are appointed to such a body, there is the potential for contracts that the central body lets to be subject to less than rigorous analysis. We all know what happens—not only in this country, but elsewhere—when cosy relationships develop and there is insufficient scrutiny. Are you satisfied that the accountability structures for bodies such as the one that is

referred to in your report are sufficiently rigorous to ensure that there is always proper accountability, scrutiny and decision making?

John Baillie: Both the Accounts Commission and Audit Scotland have been saying for some time—for example, in the report “Code of Guidance on Funding External Bodies and Following the Public Pound”—that, no matter where the public money goes, the same accountability and governance are needed. It is therefore for councils to ensure that that happens. If something was not followed through in the way that the convener talks about, it would be picked up in, for example, the best-value reports of individual councils.

My second point is off-point a little, but it might be worth making. Councils find themselves in a bit of a dilemma just now because they are looking at how to charge the local economy in difficult times, but the more that they centralise purchasing, the more they can perhaps devastate the local economy. That is for them to decide; I just make an observation on it.

Caroline Gardner might want to amplify on your point, convener.

Caroline Gardner: I invite Gordon Smail to come in on this one, because I think that he is on top of the detail.

Gordon Smail: Most of the points have been covered. John Baillie spoke about the need to maintain governance. The report reflects the fact that this year and in previous years arm’s-length organisations have become more prevalent. As Mr Baillie said, it is essential to follow the “Code of Guidance on Funding External Bodies and Following the Public Pound” that the Accounts Commission and COSLA released a few years ago. It is important for councils to know what they are trying to achieve through such arrangements and to put in place the type of monitoring arrangements that have been suggested. There must be monitoring not just of the financial position but of performance, to determine whether a council is getting from the arrangements the level of service that it expects.

There are many examples of such arrangements around the country. Our experience is that some questions about governance start to unwind only when problems emerge, not when things are going fine. It is important that governance is right from the outset.

The Convener: Let us put to one side the issue of malpractice, about which everyone must be vigilant at all times. Mr Baillie made an important point about the impact of centralised decision making on the local economy. When a council entrusts local purchasing to a central body and the contract is won by a big company—perhaps not

from Scotland, but from elsewhere—local companies may suffer. I have had local contractors tell me that a service that they had provided to the council—for stationery and printing, for example—has been centralised. They say that the cost to the public purse is now greater than that of the service that they could provide, but they have no way of influencing matters because they are not big enough or they do not meet the criteria. I am sure that other members have encountered such situations; Murdo Fraser has raised the issue. The public purse is losing out from the way in which purchasing is done. Do you look at that issue from an audit perspective, or is it simply a management issue that councillors on the board must resolve?

John Baillie: When Audit Scotland prepares best-value reports, part of its work is to look at the competitiveness of councils—how they assess the competitiveness of their services and the value for money that their purchases represent. My two colleagues from Audit Scotland can amplify my comments. We urge councils to benchmark their purchases, to ensure that they are getting not the cheapest service but the best value for money—the service that is best value for money is not always the cheapest. If benchmarking is lacking, as is sometimes the case, that is commented on in best-value reports, included in our findings and built into the improvement plans that councils draw up to do something about the situation. Competitiveness is looked at specifically. Councils need performance management and performance information, so that they have the proper tools to enable them to make the right decisions.

Willie Coffey: In the first year, you raised four questions with East Ayrshire Council. As a serving member of the council, I endorse Caroline Gardner’s comments on the thoroughness with which the current administration approached the issue that arose, with support from across the council. That is to the credit of all members of the council.

It is a relatively new experience for the scrutiny committee to be chaired by an opposition member. I supported that approach under previous administrations, when it was never followed, as I did not understand how an administration could scrutinise itself. It has taken a wee bit of time to persuade authorities to adopt that stance, which is to be warmly welcomed and encouraged.

11:15

Cathie Craigie (Cumbernauld and Kilsyth) (Lab): I am sorry that I was late, but I had another parliamentary committee to attend. I apologise to the committee and the witnesses.

In paragraph 53 of the report, you say that the Scottish Government's e-procurement programme provides the potential for e-purchasing and online auctions. I do not have any experience of that. The only knowledge that I have is of the bad publicity that surrounded South Lanarkshire Council when it held an online auction for the provision of care services. Such tools can be used to save money, but whereas the results may have been competitive on price, they did not meet the needs of the people who were to be served by the expenditure of that pocket of cash. How do we prevent that from happening?

Caroline Gardner: You are absolutely right. That is another good example of the trade-offs to which the convener referred earlier. In making any big purchasing decision, one looks to trade off getting a good price with ensuring that the purchase provides the required quality. One needs to ensure that one is not having an undue impact on the local economy, that the purchase is sustainable and that the cost to the public purse is not bigger. All that is particularly apparent with regard to sensitive services such as care services for older people.

We think that the progress that is being made in collaborative procurement—of which e-procurement is a part—helps people to be more transparent about what they are doing. At the same time, it does not remove the need for judgment and, to be frank in some cases, for political choices about what is most important in a particular area. It is important that that is transparent and that the members are accountable for it to their electorates. It is hard to see how something like care services can be procured through an electronic auction when the quality of interaction between the service provider and the individuals is key to the service doing what it is meant to do. However, members should take such decisions consciously; they should not assume that because a portal exists for e-purchasing, it should be used for everything.

Cathie Craigie: It is early days, and there is a learning process about when e-purchasing is appropriate, and so on.

Caroline Gardner: Yes. The report refers to a piece of work that we did jointly for the Accounts Commission and the Auditor General, in which we considered progress on procurement in general, in line with the work that was commissioned by the Government three or four years ago. We think that good progress is being made, but careful attention needs to be paid locally to how things can be procured at the lowest cost without losing what is valued in the first place about what is being bought.

Cathie Craigie: Exhibit 8 provides information about local authority workforces. If my sums are

correct, between 2008 and 2009 we lost more than 4,000 workers in the local government sector, including—

The Convener: Which exhibit are you referring to?

Cathie Craigie: I am sorry—it is exhibit 11. Obviously, there is a cost to everyone who loses a job, and the impact on the local economy needs to be considered. Have you done any work on that?

Caroline Gardner: The convener asked a good question earlier, which took us into those figures. That exhibit conceals the fact that a big chunk of the change was made up of staff moving from direct employment in Glasgow City Council into an arm's-length organisation. If that is discounted, there was a small increase in the number of staff employed across the piece. However, your broader point is correct. Many local authorities are planning reductions in their workforces, but that will have an impact on much wider issues than just the budget. Given the current difficult circumstances, we know that all those local authorities are taking those issues seriously.

The Convener: I thank Gordon Smail, Caroline Gardner and John Baillie for their contribution. Notwithstanding the frustrations that the committee sometimes feels when items are drawn to our attention that we cannot take any further, we recognise the sterling work that the Accounts Commission and Audit Scotland perform, and the invaluable service that you provide not only to the committee but to local authorities. The challenges that you pose to public representatives are very big. Are we sufficiently equipped to meet those challenges and address the shortcomings that you sometimes identify? We all have a shared objective to ensure that public resources are used to best effect, for which work we thank you.

John Baillie: Thank you.

Section 23 Report

“Improving public sector efficiency”

11:20

The Convener: Item 3 is a section 23 report from the Auditor General entitled “Improving public sector efficiency”. I invite Mr Black to introduce the report.

Mr Robert Black (Auditor General for Scotland): With your agreement, convener, I invite Caroline Gardner to introduce the report.

The Convener: There will be a quick change of seats.

Mr Black: Caroline and I work in partnership on all this. It just happens that, because of the way in which the work flow is going, a number of items are coming to the committee in which Caroline has played a significant role. I know that she is up for this and I have every confidence in her, as you know.

Caroline Gardner: Thank you, Bob.

We put forward this report as a good example of how the model of public audit in Scotland lets us look across the central Government and local government boundaries in a joined-up way. The report was published in February as a joint report for the Auditor General and the Accounts Commission, and it does two things. It provides an update on 2008-09, the first year of the efficient government programme that is currently under way, and it examines how the Scottish Government has responded to the recommendations that were made in our 2006 report on the earlier efficient government initiative. It measures progress in relation to those two approaches to the generation of efficiency savings. I will briefly highlight three key messages from the report.

First, Scotland’s public sector continues to deliver efficiency savings. In 2008-09, reported savings were £839 million, which is equivalent to 3 per cent of Government spending, against a target of 2 per cent of Government spending. That is a good outcome, but I sound a note of caution. We found that reported efficiency savings were not generally supported by good enough performance information on activity levels and service quality; therefore, there is a risk that some reported savings could result from cuts in the level of the services that are provided or reductions in the quality of services. That is an important caveat, which means that we cannot provide audit assurance about those savings.

Secondly, as we have discussed in relation to local government, it is increasingly clear that the

current savings targets will not be enough to meet the financial challenges that Scotland’s public services will face in the future. The current financial year, 2009-10, is likely to be the peak year for public spending for some time to come, and public bodies are facing the biggest financial pressures since devolution. Continuing to plan for 2 per cent efficiency savings will, therefore, not be enough. The current targets were set at a time when Scotland had been experiencing an average growth in the budget of 5 per cent a year, and that is very different from the world that we are heading into. The Auditor General’s report on Scotland’s public finances, which was published before Christmas, predicted a gap between the current spending level and the funding level in 2013-14 of between £1.2 billion and £2.9 billion. Efficiency savings of 2 per cent will not get close to filling that potential gap. I stress that considerable uncertainty remains in all those figures—the situation could be better or worse than the predictions that were made at that point suggest. Nevertheless, there is no doubt that there are major financial challenges ahead.

The third key point, therefore, is that public bodies must continue to improve their efficiency and productivity as they have been doing. They must also consider fresh approaches to the delivery of services and the improvement of outcomes. They must know what their priorities are and that they are directing money towards them, and they must improve their information about cost, productivity and quality so that they can demonstrate that efficiency savings really are efficiency savings. Perhaps most important, now is the time to extend shared services and engage in much wider collaboration and joint working to find better ways of providing services and improving outcomes for local people. To support that change, we have worked with the Wales Audit Office and the Northern Ireland Audit Office to produce a checklist of good practice, which is published on our website alongside the report. It takes the form of a series of questions about good practice and it is designed to help the leaders of public organisations to promote self-evaluation and planned, focused improvement in efficiency.

We all recognise that it will be difficult to meet the challenges ahead and that tough decisions are likely to be needed, for which strong leadership and commitment will be necessary. We will do our best to answer any questions that the committee may have.

The Convener: Thank you. One puzzle for committee members is what to do with reports when they show that no action has been taken on previous reports. We might think that there is no point in doing anything. There is a point in producing reports only if they lead to improvement and action. We have a quality report that is based

on past experience and applying that experience, but it is profoundly disappointing that, of the 13 recommendations from the 2006 report that are identified in exhibit 2, only two have been implemented and only limited progress has been made on five. Frankly, when Audit Scotland staff are going to the effort of producing reports and we are investing substantial public resources in examining practice and trying to improve it, it beggars belief that only limited progress has been made on five out of 13 key recommendations. Have you had feedback from senior managers in the Scottish Executive as it was, or the Scottish Government as it now is, about what they are doing to implement the recommendations?

Caroline Gardner: Yes. We agree completely about the importance of being able to demonstrate the impact of the work that we do on your behalf. It is worth saying that implementing the recommendations is not simple. Demonstrating real efficiency savings requires enough information and understanding to take account of all the other things that change at the same time. There are often changes in the volume of service that is provided, increases in the quality of service and changes in the requirements that must be met. It is not straightforward to strip those out to give clarity about the relationship between the inputs and outputs.

Putting that to one side, I think that one challenge for the Government has been that a range of public bodies need to play their part and they have different ways of working, accountability structures and performance management arrangements. However, it is absolutely critical that progress is made so that the bodies can manage their efficiencies themselves and retain public confidence that they are doing that as well as possible and making the right decisions.

The Convener: Yes, but ultimately those public bodies are accountable to ministers and ministers rely on their civil servants, who have a key role in their relationship with public bodies. Where public bodies are failing, ministers need to be given the information to take action. I accept that difficulties exist in getting some things done. However, one recommendation was to

“Ensure that all reported efficiency savings are calculated using suitably robust methodologies”.

Limited progress has been made on that. If we do not know the methodology and there are no suitably robust methodologies, how can we know whether there are efficiency savings? We are just kidding ourselves on.

Caroline Gardner: That is the right question, and it is a question for Government. The recommendations were accepted in 2006. A lot of work has been done on the efficient government

programme in a range of ways, but when we examined the efficiency statements that bodies provide, we found that they were not consistently well enough supported for us to be able to provide that assurance. That is a key area for further improvement.

The Convener: It must be incredibly frustrating for you when you have done such work and limited progress is made.

Murdo Fraser: I back up what the convener has said. The point that should worry us in Caroline Gardner's introduction is that we are not clear whether the so-called efficiency savings are efficiency savings at all or disguised cuts in service. If we are to get a grip on this agenda, we need to understand that efficiency savings are what they say on the tin and not disguised cuts in services. How can Audit Scotland delve deeper into all that to find out what efficiency savings mean in practice for the quality of the services that are being offered?

11:30

Caroline Gardner: We are trying to approach the question from the top down and the bottom up. We have therefore worked closely with the Government on what you see in “Improving public sector efficiency” with regard to the action that it is taking to set targets, agree them with the bodies, and clarify the expectations for reporting. We are also using the annual audit process to look at the progress of each of the 200 bodies. It is clear that there is a lot of local variability, as well as the progress that has been made to different extents at the national level.

Angela Cullen (Audit Scotland): I agree completely with what Caroline Gardner has said. We have looked at that question again and it is fair to say that the Government has made some progress in implementing the recommendations that were made in 2006. One of those recommendations was that new guidance should be introduced, but the individual bodies have not necessarily followed that through. For Audit Scotland and the auditors to come back and do more work, we need to see the further recommendations being implemented at local level.

Caroline Gardner mentioned the good practice checklist that we have produced, which is aimed at senior leaders of the public bodies. That checklist sets out a series of challenging questions that they should be asking to assure themselves about what is happening locally in each of the bodies.

Cathie Craigie: I will stay on that theme. Paragraph 40 on page 14 of the report tells us again what Caroline Gardner highlighted in her opening remarks:

"The Programme allows nonrecurring efficiency savings to count towards the two per cent target".

You point out that many public bodies have found one-off savings from the sale of surplus assets. I cannot find in the report how much of the figure is made up of the sale of assets, although you will probably point me to a paragraph that will tell me that in black and white.

Angela Cullen: We cannot give you that level of detail. The reported efficiencies do not go into that level of detail. There are recurring and non-recurring savings, but we do not necessarily know how the non-recurring savings are made up.

James Thompson (Audit Scotland): The information from health bodies and local authorities is broken down into recurring and non-recurring savings, but such information is not reported by central Government bodies. However, we do not have an analysis of every single pound of the non-recurring savings. Local government's efficiency statements can provide some of that detail, but it would be a case of going back to all 32 authorities. We have not done that for this report because it is for only one part of the public sector.

Cathie Craigie: Can we be sure that the bodies are making the 2 per cent savings and that the figure is not being skewed by the sale of assets?

Caroline Gardner: Under the terms of the programme, one-off asset sales and other non-recurring savings can properly be counted. There is nothing wrong with doing that. If a council has surplus assets, that is the right thing to do. The concern that we want to register in the report is that that is not enough. By its nature, a non-recurring saving can be made only once, and such savings will not close the gap between the funding and spending levels that we are likely to see in future. As part of a strategy to close that gap, it is perfectly proper to rely on one-off savings from asset sales and other things, but they should be used only as a way of making the larger changes to ways of working that will be required to generate recurring savings for the future.

Cathie Craigie: In the report's "Summary of key messages", you do not underestimate

"The scale of the financial challenges facing the ... public sector",

which, the report says,

"means that a new approach is needed that fundamentally reviews priorities and the delivery of services."

Does that refer to local government reorganisation—perhaps a reduction in the number of councils? Does it mean reviewing the number of health boards or police boards? What is meant by that statement? How should we be delving into the sector and seeking efficiencies?

Caroline Gardner: We do not make those specific recommendations—you would not expect us to. However, the delivery of many important services relies on a lot of working across boundaries. Earlier, we spoke about the challenges of providing services for older people, which almost always require health and social care to work together. The same is true for children's services, with schools, social work and other services getting together. Taking a step back and considering what public services are trying to achieve and how they can best organise themselves are likely to offer opportunities for making savings as well as for improving quality that go a long way beyond the discussions about shared services that have been taking place so far.

The same thinking could be pushed out to the police, for instance. The Scottish Police Services Authority was set up to do some things across Scotland for the eight police forces. There is a proper policy and political question to be discussed around whether that work has gone as far as it can, whether it should go further and what the right trade-off is between local service provision, the current structures and the ability to work better across Scotland in the future. There is no one answer, and we are not suggesting reorganisation, but it is a timely debate in the current context.

Cathie Craigie: Boundaries should not prevent any public body from considering the best way of delivering something.

Caroline Gardner: Absolutely.

Angela Cullen: Part 2 of the report aims to help the reader to understand what we mean when we say

"a more fundamental approach is needed."

It is a matter of seeking to improve productivity, efficiency and outcomes, using a priority-based approach to budgeting and spending, with better collaboration and joint working—it is about improving on what is already in place. There are some really difficult decisions to be made, which requires strong leadership. However, such decisions have to be made in the current economic climate.

Willie Coffey: Like some of my colleagues on the committee, I have a long experience of local government. The question is whether we can continue to improve services with fewer resources through greater efficiency. If we know the answers, then—bingo—we can do it. That is what we strive towards, anyway.

In my experience, we have moved away from a system that relied totally on targets and target setting but which gave no indication of whether, if

those targets were met, anything was actually achieved in terms of outcomes for the public and their expectations of services. I am pleased that there has been a gradual shift from target setting to outcomes for the public.

It is often difficult to define positive outcomes, and it can take a wee bit of time for the outcomes approach to bed in and become clear. It is good to see some examples in your report. You mention some case studies where there has been good practice, with councils looking at service providers and partners in an attempt to make things better and more efficient. That is encouraging—it is not all doom and gloom, despite the tight financial pressures that we all live under. Good things are going on. However, I do not underestimate the challenges that councils face in trying to improve services with diminishing resources.

Nicol Stephen: Is there any way to elevate the seriousness and importance of the subject? We know that some public bodies are misrepresenting their declared efficiency savings. At the most basic level, that is cheating. They are doing all that in the name of the public sector. Could there be a line in the audit process commenting on the appropriateness of the approach taken by individual public bodies?

It is pretty fundamental if the organisation is declaring that it is achieving efficiency savings when it is not. Who is the gatekeeper here? Could we do it differently by introducing more rigour to strengthen your recommendations and give you more power to enforce?

Caroline Gardner: One of the real strengths of the Scottish model is the ability of the Public Audit Committee to add weight to the analysis and technical work that Audit Scotland does on behalf of the Auditor General and the Accounts Commission. It would be great if the committee could find a way to add clout to the recommendations.

However, I need to sound a word of caution: if we felt that people were actively misrepresenting their efficiency savings, we would have let you know. Our concern is a more general one that public bodies do not have the baseline to demonstrate properly that efficiency savings are just that, rather than reductions in the level or quality of services.

Nicol Stephen: Perhaps it would be more appropriate for the audit to say that public bodies were unable to substantiate with any rigour the efficiency savings identified, or some other appropriate phrase, rather than saying that they were cheating or misrepresenting. Then we would all know what was involved. If that were part of the audit process, organisations would take it far more seriously. Only one authority in the whole of

Scotland had a qualified audit last year—Shetland Islands Council. If authorities knew that their audit would be qualified and the efficiency savings issue would be raised, they would jump.

Caroline Gardner: The grounds on which accounts can be qualified are closely defined, but you are absolutely right that there might be scope for clearer reporting of where people are not meeting the required standards. It is quite possible that the committee could add its own encouragement of public bodies by letting them know about the seriousness with which it treats the matter. It would be useful to continue that discussion.

Nicol Stephen: That would be helpful. Who does the defining?

Caroline Gardner: People way above us, in places far away from Edinburgh.

George Foulkes: In the past year, the Scottish Government has spent £9 million on hiring temporary staff from agencies—an increase of a quarter. I understand that the cost of hiring a temporary worker is about £34,000 a year, which is £12,000 more than the average public sector worker earns. That process of casualisation not only provides fewer guarantees for the workers—in relation to pensions, for example—but costs more in real terms. What are you doing to discourage the Scottish Government and other bodies from continuing to increase the number of agency staff they employ?

Caroline Gardner: I feel as though I am being a stereotypical auditor this morning in injecting notes of caution more often than I would like to. You are right about the scale of agency staff use in the Scottish Government. Similar issues will be looked at in some work on the use of locum doctors in the health service that is coming up soon. However, it is not a straightforward question of temporary worker bad, permanent worker good. There are circumstances in which having agency staff or other forms of temporary workers can be absolutely the right thing to do, particularly in a climate in which the overall number of people employed might be declining and it is necessary therefore to keep some flexibility to manage peaks and troughs. However, additional costs can be incurred, and some real risks can arise, if the situation is not managed well.

The committee might want to consider the matter with the Scottish Government in broad terms. As I say, we are looking at it in the context of locum doctors, and we have looked at it in the past in relation to bank and agency nurses. It is another of those trade-offs that public bodies are making, but they ought to be clear about their reasons for the decisions that are made.

George Foulkes: But is it not worrying that such recruitment has increased by a quarter in the Scottish Government in the past year? Does that not indicate that it is using temporary staff in an expedient way rather than in the planned way that you described?

Caroline Gardner: It could mean that, but that really is a question for Government about the reasons for the decisions that it has taken, rather than being a question for us.

11:45

George Foulkes: Unusually, today I am disagreeing with Caroline Gardner more than I am agreeing with her.

I also want to ask about the cost of consultants. Do you remember that you produced a report on consultants? In the previous financial year, the Scottish Government spent nearly £45 million on consultants. Surely some efficiency savings can be made in that area. The sum that was spent on information technology consultants was £29 million. A lot of money is going out from the Scottish Government to private sector bodies—KPMG and a range of others—that are not necessarily providing things more efficiently than if they were done in-house and if we built up our own capabilities rather than constantly relying on consultants. Is that area being examined in the context of efficiency savings?

Caroline Gardner: You are right—we produced a report a couple of years ago that provided a lot of information about spend on consultants and the various areas where that expertise was being used. It made some recommendations on improving their cost-effectiveness and reducing the overall cost by ensuring that they are used only when essential. Our auditors monitor the extent to which those recommendations are taken up and acted on in practice. I do not have the figures with me today, but one feature of the new efficient Government programme is very much to bear down on the cost of consultants as part of the targets. Angela Cullen might want to add some detail.

Angela Cullen: I do not have any more detail with me, but Dick Gill can provide some more information.

The Convener: Rather than go round the room, if you have the information, you can revert to us in writing.

George Foulkes: That would be really helpful. Thank you.

Anne McLaughlin: I was looking at part 2, on how we are going to deliver a more efficient and productive public sector. I was pleased to see that

the key messages mention working with service users and front-line staff. The report states:

“service users and front-line staff have an important role to play in redesigning services to deliver savings and improve quality.”

That involvement is a great idea, but I am interested in what it would look like in practice.

There is a lot of scepticism among the public—and, I suppose, among some front-line staff—about their inclusion. Most members of the public are well aware of the circumstances in which we find ourselves. People oppose disruption to services, but that is often because there has not been proper consultation. As far as I am aware, there is significant opposition only when there is a closure programme. In my local authority area, Glasgow, we had a school closure programme last year. There was a dip in public confidence over that because people felt that the schools were being closed, then they were being consulted, but the schools were still being closed. Following the convener's lead, I acknowledge that I am talking about Glasgow, but people in other local authority areas have felt the same.

I am interested to know what you think the involvement of service users and staff would look like. Rather than saying, “We are closing this. What do you think?”, how can we include public sector staff and service users before it gets to that stage? How can we include them in a qualitative consultation? Is there an acceptance of the need to do that, and is there a desire to do it? How can it be done effectively?

Caroline Gardner: We have a couple of examples. Case study 4 is an example from the national health service. It involves NHS Borders and NHS Highland using a user perspective to improve palliative care services so that not only do patients get better quality but better use is made of the health boards' money. There are a number of examples from around the country of different public services doing that. However, the thrust behind your question was spot on, in that such work cannot be done in isolation. It has to be part of much wider engagement with local people about what matters to them, about the choices that have to be made, and about the ways in which different groups' needs are taken into account.

Most people now accept that we face some tough choices about public services, and engagement has never been so important with regard to maintaining people's trust in public services and ensuring better decision making. Engagement enables people to understand what the trade-offs are and to feel that they have been listened to and have had their say, even if the final outcome is not one to which they would have originally signed up.

Anne McLaughlin: I will highlight one example. I have recently been in contact with the Castlemilk Stress Centre in south-east Glasgow. It has lost its core funding with two months' notice, and service users and staff are extremely upset. They are fighting hard to get core funding from somewhere else, but they have very little time in which to do so. The really unfortunate element of that case is that the organisation had applied to be part of the Pilotlight project. Support from that project would have allowed the centre, within a year, to become far more self-sustaining. It applied for that support because it recognised the pressure on public finances, and if prior consultation had been undertaken before the decision was made, the organisation would have been able to say, "This is what we are doing to address the issue".

The closure of the centre is by no means definite, but that is an example of how local people and local services are aware of the situation that we face. They are looking ahead, but they are sometimes thwarted because their funding is taken away before they can get to the position that they seek to reach. I think that the report contains such an important message in that regard.

Do you believe that people want the public sector to engage with local people or simply to take decisions?

Caroline Gardner: There is a strong and growing recognition that public services are there to serve the public, and local community engagement is definitely improving. However, it is not yet consistently good enough to do what you are talking about.

The example that you gave is not the only case that we have heard about recently in which a voluntary organisation has been affected in that way by council decision making. We are scoping a piece of work that is aimed at examining that question, because there is a risk that, although certain decisions might save the council money, they might come at a wider cost to the public purse and reduce the quality of services for local people. That cannot be the right trade-off, so we are planning to examine the issue during the next few months.

Anne McLaughlin: That is good to know.

The Convener: Thank you very much for that. The committee will need to deliberate on what we will do and where we will go with the report, which we will discuss later on in the meeting. As always, the report was useful.

Scottish Government Consolidated Accounts

11:52

The Convener: The next item is the Scottish Government consolidated accounts for the year ending 31 March 2009. It involves an unusual issue, which we have not considered before. The item does not—at least this year—involve the committee commenting in any detail on the consolidated accounts that are before us. At this stage, we are exploring how we can use the accounts in future years to help to inform the Parliament's budget process and the committee's contribution to that process. I ask the Auditor General to introduce the item.

Mr Black: It was suggested in the report on "Scotland's public finances: Preparing for the future", which the committee considered last November, that the committee might consider scrutinising the audited accounts for the whole of the Scottish Government. We noted that those accounts are usually available in October, which is earlier than the point at which they used to be made available.

We thought that it might be appropriate for the committee to have a look at the accounts and draw out any significant issues that could inform future budget processes. We agreed to come back to the committee with a paper to suggest how Audit Scotland might contribute to that.

As you say, we are not for a moment suggesting that you scrutinise the 2008-09 accounts, because we are almost at the end of 2009-10, but you asked for the consolidated accounts to be circulated so that you could see the shape of the document. Caroline Gardner will indicate our main ideas about how we might contribute.

Caroline Gardner: As the committee knows, we currently report to you on public spending in a variety of ways. You get the reports on the accounts of individual bodies when a matter of public interest arises—you have recently had some work that looked at the Mental Health Tribunal for Scotland administration in that way. You get studies on particular services or policy areas, such as the efficient government programme, which you have been looking at today. You also get overview reports on areas such as the national health service, which pull together the £11 billion that is spent there and aim to give you a sense of what is being achieved with that money and of where the risks are.

However, what we have not done so far is report on the overall Scottish Government consolidated accounts and the total £30 billion or so that is

spent. That is partly because of the challenge for you and us of getting a grip on that wide range of expenditure, the range of bodies that it includes and the programmes that it covers.

The focus on how the committee might be able to help to inform the Parliament's budget scrutiny, which came through in the discussion on the November report, led us to think about how we might be able to take that a bit further with you at this stage.

We have taken the opportunity to let you see what is in the consolidated accounts, which is the very thick document that you have in front of you. The covering papers show some of the sorts of analysis that are quite straightforward to do to focus questions to the Government about what is going on there.

The consolidated accounts bring together the expenditure and income in one place for the core of the Scottish Government, the Crown Office and Procurator Fiscal Service, NHS boards and the Government's executive agencies. As Bob Black said, the audited accounts are published in October every year and laid in the Parliament at that point. On timing, in theory it would be possible for us to do some analysis of those audited accounts, which would feed into the Parliament's budget scrutiny.

In the briefing paper that you have, we have done a high-level analysis of the Scottish Government's outturn for the financial year that ended in March 2009 and identified significant areas where the outturn varies from the budget provision. We have not attempted to explain why those variations occurred, but we have looked to identify the sort of analysis that we could provide for you if it would be helpful to probe the accounts a bit further, with the aim of thinking about questions for budget scrutiny for the Parliament as a whole.

We think that there are a couple of areas that you might want to consider. First, we could take the analysis of the variations further, go into more detail, provide you with more of our understanding of what lies behind them and use that to focus questions for the Government, which would play into the budget scrutiny process. Secondly, we think that, in the longer term, there is scope to look at more of the whole system cost of portfolio areas such as justice, and education and children's services. We do that currently for the health service, because it is a pretty well-defined area of service. It might be possible to develop that further in the medium to longer term. Taken together, those sorts of analyses would let the Parliament ask questions, through its various committees, about progress in delivering policies and outcomes and how that is reflected in future budget

proposals. We think that that is worth a bit of consideration at this stage.

The Government continues to improve the financial information that it is making available to Parliament, including the earlier publication of its accounts and greater detail to assist with the scrutiny of detailed budget proposals. However, at the moment, there is not much detail that links the expenditure with performance or the outcomes that are achieved with the money that is spent. The committee might have an opportunity to think about helping the Parliament to close that gap.

As the convener has said, the accounts that you have in front of you relate to the financial year that finished in March 2009. We are now heading very quickly towards the end of the current financial year. We will soon be starting the audit of that set of financial statements. It is important that we keep our focus ahead on what might be possible in future. There are some headline messages in the briefing paper that you have, which draws on the last set of consolidated accounts, which might help you to focus your thinking a bit more.

There are three things to pull out. First, there was limited overall change between the original and the final budget at the high level, but there were significant movements in individual portfolio budgets beneath that level. Almost a third of level 3 budget lines showed significant variation between the original and the final budgets, which is important. Equally, the outturn of all portfolio budgets was within the statutory limits, but in two cases there were revenue overspends that were offset by capital underspends. There is nothing wrong with that, but it is another example of how detail that is evident at the lower level does not come out at the top level of analysis.

I am very conscious that this briefing aims to cover an awful lot of material in a very short time and that some of the material might be of interest only to the anoraks among us. However, given the debate that you had back in December on the report on the future of Scotland's public finances, we thought that, at this point in the budget cycle, it was worth taking a bit of time with you to look ahead to next year and think about what you might find useful in future years.

12:00

The Convener: Thank you very much, Caroline. We have not seen you at the committee in a while, but you are certainly making up for lost time today.

Caroline Gardner: I am bit like a double-decker bus, convener. You wait for hours and then three come along at once.

Mr Black: I could get used to this, though.

Nicol Stephen: As one of the individuals who were very anxious to receive this information, I think that we can see very quickly how helpful and informative it is. I agree with everything that Caroline Gardner has said. It would have been far more helpful to have gone into the scrutiny that she talked about with supporting information from Audit Scotland, and I believe that the real worth of this work will be established only after a number of years have passed and we have built our knowledge. That said, reading through even these documents, you instantly start asking important questions about the outturn figure and the spring budget revisions, which we have not scrutinised in any great detail. Certainly with regard to these budget documents, some of those revisions were very substantial indeed.

George Foulkes: I support Nicol Stephen's comments. If we are going to look at the issue at a subsequent meeting, it might be useful if the reasons behind certain things that Caroline Gardner highlighted, such as the significant variation in a third of the level 3 budget lines, could be outlined. We should also examine the reasons behind this switching between revenue and capital, which—taking on Audit Scotland's role for a moment and looking at it from an accountant's point of view—I would suggest is not usually acceptable.

The covering report is very helpful in that it reminds us that the Scottish Government's core budget is only 8 per cent of total expenditure. Given that the budgets of NHS bodies, agencies and NDPBs, which we scrutinise, make up 50 per cent of the total whereas the budget of local government, which the Accounts Commission deals with, is 36 per cent, we are between us already dealing with a significant amount of expenditure.

Just to go back to one my bêtes noires, I see that our dear friend Sir John Elvidge gets paid between £180,000 and £185,000 a year—which is twice the salary of the director of education in your local authority area, convener—and that when he retires he will get a lump sum of £230,000 and a pension of £80,000. Nice work if you can get it.

Willie Coffey: Everything was going fine up until that last comment. I hope that members will not use these reports simply to pick on individuals with whom the committee has constantly raised issues. We have to be above this—

George Foulkes: I go to church if I want to hear sermons.

Willie Coffey: I also suggest that we should not stray into matters that our colleagues on the Finance Committee might be covering. We carry out a different scrutiny role, and I hope that

members will be mindful of that as these reports come to us in future months and years.

The Convener: I understand Willie Coffey's point but, if a public report that has been laid before a parliamentary committee refers to certain facts and if that committee is attempting to use these reports to inform its future work, members have the right to consider those facts. I assume that, if the information was irrelevant, it would not have been reported. If it has been reported, it is relevant and therefore fair comment can be made.

Obviously this has been only a preliminary discussion about what we will do with these reports, and we will discuss the matter later in the meeting. I thank Caroline Gardner for her introductory remarks and draw the public part of the meeting to a close.

12:05

Meeting continued in private until 12:35.

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